

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Market Dominant Product Prices
Standard Mail
PHI Acquisitions, Inc.

Docket No. MC2014-21

Market Dominant Product Prices
PHI Acquisitions, Inc. (MC2014-21)
Negotiated Service Agreement

Docket No. R2014-6

PUBLIC REPRESENTATIVE MOTION
FOR ISSUANCE OF INFORMATION REQUEST

(March 19, 2014)

Pursuant to Rules 39 C.F.R. §3001.21(a) and 39 C.F.R. §3007.3(c), the Public Representative requests that an Information Request be issued to obtain additional clarifying data and explanation from the Postal Service concerning the proposed NSA. The proposed questions seek information that will allow participants to provide more constructive comments and evaluate whether the proposal meets applicable legal and regulatory requirements. Obtaining this information will also contribute to a better understanding of how the Postal Service has interpreted Commission rules and allow the Commission to make a fully informed, reasoned determination on whether the proposal meets applicable legal and regulatory requirements, including 39 U.S.C. §3622(c)(10) and 39 C.F.R. part 3010.

Proposed Questions

1. In its Notice¹, the Postal Service states that Attachment F contains the calculations underlying its financial analysis of the NSA, pursuant to 39 C.F.R. § 3010.42(c)(2).
 - a. Page 12 of the Notice contains a discussion of “the attached Excel workbook ‘PHI NSA.xls’ (Attachment X).” Please confirm that Attachment F is the Excel Spreadsheet “PHI_NSA_ Financials.FINAL.xls” filed with the Notice. If not confirmed, please identify Attachment F.
 - b. The following table contains the Postal Service estimates of Before Rates Volume, After Rates Volume, and USPS Net Value by contract year.²

USPS Projections of PHI NSA					
	Contract Year 1	Contract Year 2	Contract Year 3	Contract Year 4	Contract Year 5
Before Rates Volume	197,332,400	196,101,046	194,877,375	193,661,341	192,452,894
After Rates Volume	243,000,000	266,000,000	274,000,000	281,000,000	287,000,000
USPS Net Value	\$ 1,279,398	\$ 1,700,085	\$ 2,087,282	\$ 2,491,166	\$ 3,190,536

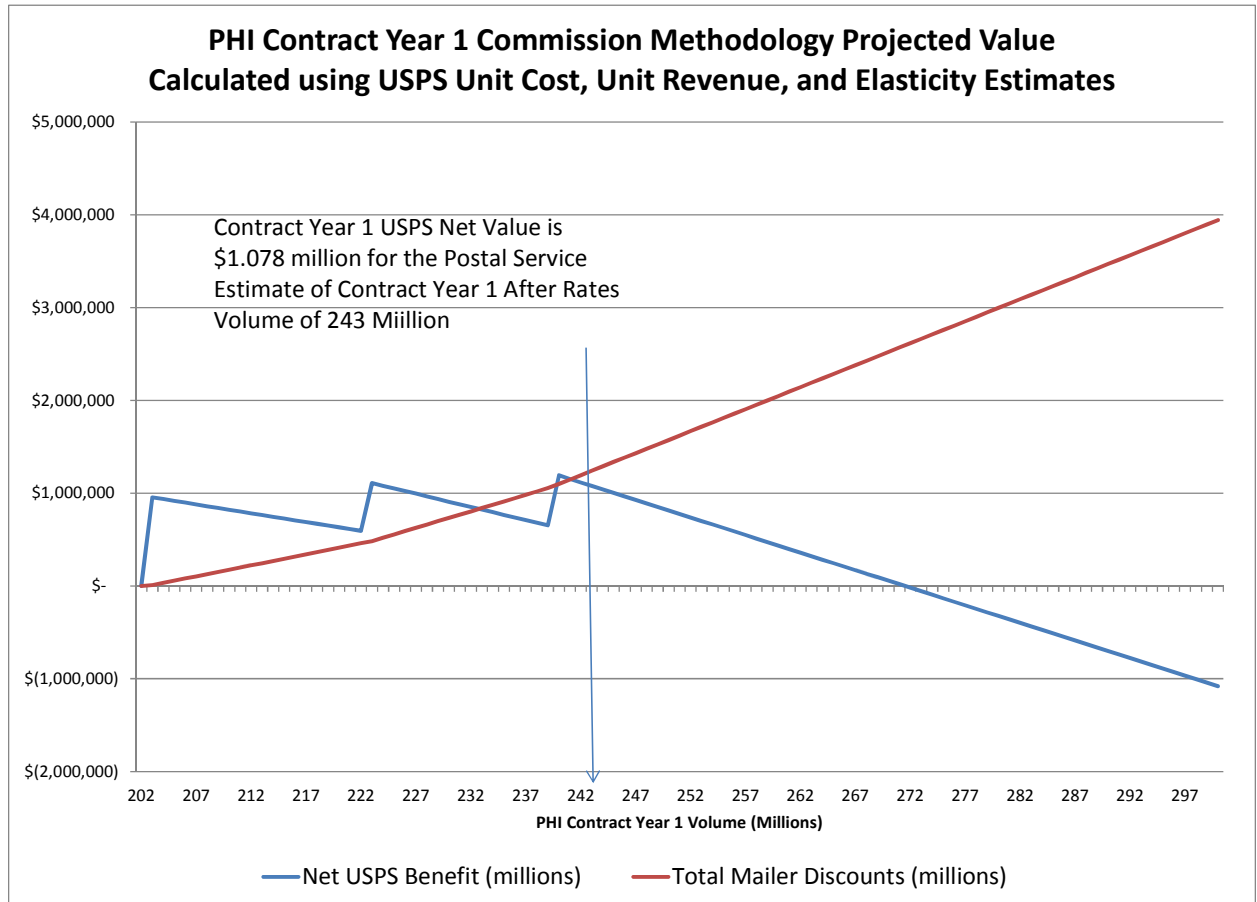
- i. Please confirm that the Postal Service has not utilized the Commission approved methodology³ to estimate the net financial impact of the PHI NSA in the file “PHI_NSA_ Financials.FINAL.xls.”
- ii. Please provide an analysis of the PHI NSA USPS Net Value using the Commission approved methodology.
- iii. Please provide the methodology and inputs used by the Postal Service to estimate Before Rates Volume.
- iv. Please provide the methodology and inputs used by the Postal Service to estimate After Rates Volume.

¹ Notice of the United States Postal Service of Filing of Contract and Supporting Data and Request to Add PHI Acquisitions, Inc. Negotiated Service Agreement to the Market-Dominant Product List, March 5, 2014 (Notice) at 2.

² This table was developed using information from “PHI_NSA_ Financials.FINAL.xls” tab “4_Tier.”

³ See Docket No RM2010-9 Order No. 738.

2. The following chart contains a projection of possible outcomes of the PHI NSA for contract year 1. The chart was developed utilizing the Commission approved methodology for estimating the net financial impact of the PHI NSA.⁴



Using the Commission approved methodology and inputs developed by the Postal Service, contract year 1 of the agreement is estimated to be profitable unless PHI mails more than 271 million pieces.⁵ In the “Risk” section of the Notice, at pages 13-14, the Postal Service does not mention the risk that the PHI NSA will have a negative impact on the net finances of the Postal Service.

⁴ The Standard Mail Enhanced Carrier Route (ECR) long-run own-price elasticity is -0.890, per the Postal Service Econometric Demand Equation file “DemandEquationTables(md).doc” at 8.

⁵ In file “PHI_NSA_Financials.FINAL.xls.” tab “1_Inputs” cell F174, the FY 2013 PHI volume is 202.626 million pieces. PHI would have to increase its volume by 34 percent to reach 271 million pieces.

- A. Please confirm that the PHI NSA does not have a volume cap for discounts. If not confirmed, please explain.
- B. Please discuss the risk to the net finances of the Postal Service associated with an NSA without volume discount caps. Please specifically discuss the lessons the Postal Service has learned from previous NSAs with discount caps, such as the Bank One/Chase NSA.
3. The PHI NSA offers volume discounts for Standard Carrier Route Mail, which, as a product, had cost coverage of 133.4 percent in FY 2013 and 130.8 percent in FY 2012.⁶ The following table details the maximum “Tier C” discounts offered in the PHI NSA and the Postal Service estimates of unit contribution by contract year.⁷

	Contract Year 1	Contract Year 2	Contract Year 3	Contract Year 4	Contract Year 5
Unit Revenue	\$ 0.233	\$ 0.237	\$ 0.242	\$ 0.247	\$ 0.252
Unit Cost	\$ 0.179	\$ 0.184	\$ 0.190	\$ 0.195	\$ 0.199
Unit Contribution	\$ 0.055	\$ 0.053	\$ 0.052	\$ 0.051	\$ 0.054
Tier C Discount	\$ 0.047	\$ 0.047	\$ 0.048	\$ 0.049	\$ 0.050
Contribution Per Piece For Tier C	\$ 0.008	\$ 0.006	\$ 0.004	\$ 0.002	\$ 0.003

- a. Please confirm that for contract years 4 and 5, the Postal Service estimates that “Tier C” discounted volume will have a unit contribution of 0.2 cents and 0.3 cents.
- b. Please identify the contingencies built into the contract to ensure that discounted volume exceeds estimated unit cost.

Respectfully Submitted,

/s/ John P. Klingenberg

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⁶ See “FY13 Public CRA.Revised.2-04-2014.xls” and FY 2012 ACD at 106.

⁷ The unit cost, revenue, and contribution estimates are derived from the file “PHI_NSA_Financials.FINAL.xls” tab “4_Tier.”